



Intellect and Creativity

*Management Consulting for
Small and Medium Enterprises*

Executive Analysis Report

Key Challenges Facing
Small Businesses in 2019

Chapter 1. Cash Flow Problems

Executive Analysis Report: Key Challenges Facing Small Businesses in 2019

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Foreword

Working with small businesses for many years, we have identified a set of issues that are recurrent as major problem areas with very important impact to their profitability and long-term sustainability. As in any major illness, being able to recognize and understand those symptoms, or problems in the case of businesses, is the first step. Being aware that something is not functioning well and that something needs to be done quickly is the beginning of the solution of the problem.

The second step is a thorough understanding of the root causes of those problems; and the third, taking the necessary remedies and treatments to solve them. Those treatments might lead to important changes in the way a business is configured and run, like changes in eating and physical activity habits after a major illness or serious health condition.

In the case of small businesses, to carry out the first and second steps in a structured way (problem identification and root cause analysis) we have developed a framework called *Business "Health Check"*. Like in a general medical examination, we review the most important areas and systems of a company: its financial situation, management practices, strategic direction, organizational structure, key operational processes, supply chain practices, use of installed capacity, administrative processes, employee satisfaction and work climate.

In this *Intellect Executive Analysis Report* we present and describe what we consider the most important problems Small businesses are facing today: Cash flow management, Finding and retaining qualified people, Productivity gaps, Lack of Management know-how, Coping with technological change and disruption and Finding and retaining profitable customers. In the *Report* we devote one chapter to each one them, explaining the problem, its common causes and possible actions to solve them.

Create awareness is our main goal when writing this *Report*. We hope you find the information easy to understand and valuable to your business.



Chapter 1 *Cash flow problems*

Virtually every small business owner has cash flow problems. Cash flow problems mean a business spends more money than it earns leading to difficulties to pay their bills and obligations.

Cash flow problems mean a business spends more money than it earns

If a business spend \$10,000 on rent, supplies and payroll this month, for example, but only take in \$8,000 in sales, the company has a cash flow of negative \$2,000. You also might have projected cash flow problems if your expected expenses outpace anticipated sales over a period in the future.

To avoid cash flow problems, small businesses owners must either be heavily capitalized, be able to pick up extra income, or take out a loan against business assets to shore up the cash needed.

However, business owners might bandage their cash flow problems with temporary cash infusions, but a business ultimately needs to fix structural problems in their supply chain and in the way they manage the business to show positive gains.

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Causes

The major cash flow problems are caused by clients stalling payments, poor sales performance, unexpected outgoings and outstanding bills that won't wait to be paid. Yet, the root causes are not having those problems but failing to prevent them from happening or identifying and taking actions to solve them at an early stage.

The major cash flow problems are ... Yet, the root causes are not having those problems but failing to prevent them from happening.

Chapter 1 *Cash flow problems*

You won't know what is going on in your business if you don't have adequate accounting information. In fact, there are many companies that do not keep adequate track of the money flows: where it's coming from and where it's going. Some companies do have the information (usually their accountants) but do not review and analyze the information properly, in depth and in frequency. Many companies fail to look at their financial statements until problems become too big to handle.

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Consequences

Without cash on hand, a business may not be able to invest in assets that it needs, such as new equipment and inventory, pay important bills or honor its debts obligations with banks. More importantly, poor cash flow management could end up putting a profitable company out of business. Profits are good for a business, but are worth nothing if cash is not coming in.

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Possible actions to solve the problem

Ultimately, you must get products to customers faster and be able to collect the receivables quickly if you want to improve your cash flow. Always deposit checks as soon as possible. Request customers pay in cash if possible or at least with a credit card. Offer a discount if a customer pays an order faster than the standard 30 days. Keep a good relationship with suppliers and vendors, in case you ever need to extend a payment deadline. If you usually pay early, consider sending in payment on the last day possible.

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Chapter 1 *Cash flow problems*

Although handling business accounting may be within the capabilities of most business owners, and many assume that responsibility, professional help is usually a good idea. The complexity of a company's books goes up with each client and employee, so getting an assist on the bookkeeping will provide owners the information they need to run the business timely and will free up key valuable time they can dedicate to business development, management (follow up) or planning.

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For most businesses, the only real way to get the books in order is to use an accounting system and to make a point of keeping it up to date. Once your books are in good order, you'll be able to stay on top of how much each customer owes you and how much you owe to your vendors and service providers. You and/or your accountant will also be able to generate useful reports so that you can understand your cash flow much more easily.

The only real way to get the books in order is to ... make a point of keeping it up to date

There are some tried and tested cash management tools that can help you automate bill payments, automate invoices and reminders, and alert you to unusual outgoings. Those applications can also accept payments and automatically charge clients.

Chapter 1 *Cash flow problems*

Cash flow forecasting

Cash flow management is fundamentally about planning, analyzing and awareness. You will not go very far in your business without a very good cash flow forecast. In fact, creating a detailed forecast and using that information to drive a budget for your company is one of the most impactful steps your company can take. Combining a thoughtful forecast with heightened awareness of your spending as well as the cost-benefit analysis of each expense means you will have the information and planning in place that can help you achieve sustainable growth.

With a cash flow forecast, you'll be able to see which months you can expect to see a cash deficit, and which months you can expect a surplus. You'll also be able to get a pretty good idea of how much cash your business is going to require over the next year or so to survive.

You can gain a lot of insight into your business by comparing actual figures to what you forecasted. If you see discrepancies between the two numbers, dig further to see what might be happening.

For example, if you discover that you are spending 30% more on people than the amount you planned you could look at the productivity of your employees and the efficiency of your key processes.

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Chapter 1 *Cash flow problems*

If your IT expenses are much higher than you thought they were, you can evaluate the possibility of switching providers or getting more competitive rates. In finding discrepancies, you can adjust your forecasts so they are more accurate going forward.

A cash-flow forecast is also a key resource to help you make important decisions, such as when to make a capital expenditure, or whether or not to cut an expense.